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E.O. 12958: N/A

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SUBJECT: Icelandic PM Halldor Asgrimsson to Leave Post;
Progressive Party in Trouble

REF: Reykjavik 196

11. (U) Summary: In a move apparently designed to resuscitate his party's hopes of surviving 2007 parliamentary elections, Halldor Asgrimsson announced 6/5 that he would resign both as Icelandic Prime Minister and as Progressive Party (PP) Chairman. The dates for his departure remain unclear while the governing PP-Independence Party (IP) coalition ponders options for shuffling the cabinet and while PP stalwarts duke it out for leadership of a party in crisis. One thing is sure: FM Geir Haarde will be Iceland's next PM. Iceland's foreign policy will likely continue on its current liberal internationalist course, but a new Foreign Minister - as yet unnamed - could potentially appoint a new defense negotiator to replace Albert Jonsson. End summary.

Problems for the Progressives

12. (U) Following a mysterious press leak and several days of feverish speculation, Prime Minister Halldor Asgrimsson (PP) told a press conference June 5 that he would resign his government post in the coming days and his party chairmanship at the next Progressive Party conference. He announced that the PP Vice Chair, Minister of Agriculture Gudni Agustsson, would also give up his party post; and touted Fynnur Ingolfsson, a former PP minister of industry who now runs an insurance company, as his (Asgrimsson's) preferred party successor as well as a potential Minister of Finance.

13. (SBU) While Asgrimsson, PM since September 2004, thus symbolically accepted responsibility for his party's poor performance in May 27 municipal elections (reftel), his noble gesture backfired in some quarters, as:

-- Agustsson, who remains popular especially with the farmers who make up the PP's base, had second thoughts about stepping down, indicating he instead might prefer to succeed Asgrimsson as leader;

-- Ingolfsson came under intense criticism from opposition politicians and media who recalled his reputation for cronyism and corruption while in public office in the 1990s; and

-- PP rank-and-file objected to Asgrimsson's attempt effectively to choose his successor personally rather than permit selection by the membership at large.

14. (SBU) Ingolfsson evidently read the tea leaves and, within days, announced he would not seek leadership in the PP. Intense speculation continues in Reykjavik as to whether Agustsson is rightly Asgrimsson's heir. Minister of Industry and Commerce Valgerdur Sverrisdottir (PP) said publicly that she thought not, thus incurring the wrath of self-appointed party unifiers but articulating the worries

of the many who view Agustsson, with his archaic Icelandic and equine policy focus, as not up to the job. Other contenders for the chairmanship include Minister of Health Siv Fridleifsdottir, who is also a former Environment Minister and known to be fiercely ambitious; and MP Jonina Bjartmarz, an experienced lawyer repeatedly passed over by Asgrimsson for ministerial slots - a history that led to a PP gender gap. Bjorn Ingi Hrafnsson, Asgrimsson's protege and new Reykjavik City Council Chairman, is considered not yet ripe for the party chairman's job.

15. (U) A decision on Asgrimsson's PP successor will go to a party conference originally scheduled for spring 2007, moved to fall 2006 as the party contemplated last month's disappointing results, and now tentatively scheduled for this summer as the party scrambles to restore order to its feuding ranks.

Opportunities for Independence

16. (SBU) In accord with the IP-PP 2003 coalition agreement, Asgrimsson's resignation puts the IP Chairman, now FM Geir Haarde, in the PM's chair. As ministers have been tied up the week of June 5 hosting a Council of Baltic Sea States summit, the Government announced that the consequent cabinet reshuffle would not take place until the week of June 12. Reykjavik's rumor mill has meanwhile gone to work speculating on the likely replacement for Haarde at the Ministry for Foreign Affairs.

17. (SBU) FM possibilities include:

-- Minister of Justice and Ecclesiastical Affairs Bjorn Bjarnason, a former Minister of Education and son of a

previous Foreign and Prime Minister (Bjarni Benediktsson, who negotiated the bilateral 1951 Defense Agreement on behalf of Iceland). Bjarnason is a committed Atlanticist and acknowledged security expert but has been among the angriest members of the GOI about what he perceives as U.S. "unilateralism" in announcing the closure of Naval Air Station Keflavik.

-- Minister of Education Thorgerdur Katrin Gunnarsdottir, who is vice chair of the Independence Party. Gunnarsdottir has limited foreign affairs experience but is said to get along a lot better personally with Haarde than does Bjarnason.

-- Minister of Finance Arni Mathiesen, a former Minister of Fisheries and another son of a cabinet minister. Though respected for his brains and seriousness, Mathiesen is actually a veterinarian by profession.

-- Minister of Fisheries Einar K. Gudfinnsson, known for his strong support of commercial whaling.

Presumably none of these would owe the same debt of gratitude as Haarde did to former IP Chairman (and Prime Minister and Foreign Minister) David Oddsson. Thus liberated, the new FM might feel free to replace Oddsson's close friend Albert Jonsson as defense negotiator. Jonsson told the Embassy June 7 that he expects to stay on as Iceland's chief defense negotiator until he replaces Helgi Agustsson as Iceland's Ambassador to the United States in November 2006.

van Voorst